

STRATEGIC MARKET ASSESSMENT: SRI LANKA VIRGIN COCONUT OIL EXPORT SECTOR (2025)

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Executive Summary

The fiscal year 2025 stands as a definitive inflection point in the history of Sri Lanka's coconut industry. For the first time, the sector breached the psychological and financial barrier of US\$ 1 billion in export revenue within the first ten months, a milestone that underscores a fundamental structural transformation from a commodity-based export model to one driven by value-added, premium wellness products. At the vanguard of this transformation is Virgin Coconut Oil (VCO), a product that has successfully decoupled volume growth from value generation, demonstrating exceptional resilience in the face of climatic volatility and supply chain supply shocks.

This comprehensive research report provides an exhaustive analysis of the Virgin Coconut Oil sector for the year 2025. It synthesizes data from the Coconut Development Authority (CDA), the Export Development Board (EDB), commercial market intelligence, and independent pricing benchmarks to construct a holistic view of the industry's performance. The analysis reveals that while the physical volume of VCO exports experienced a modest expansion of approximately 3.3% year-on-year by November 2025, the revenue generated from these exports surged by an extraordinary 67% in local currency terms.¹ This disparity is the central narrative of 2025: a "Price-Over-Volume" dynamic driven by global inflation in edible oils, the successful positioning of Sri Lankan white kernel oil as a luxury commodity, and the depreciation of the Rupee which favored export receipts.

However, the report also uncovers deep-seated vulnerabilities. The industry navigated a "V-shaped" volatility curve in raw material pricing, with fresh nut prices at the Colombo Auction oscillating wildly between Rs. 108,000 and Rs. 182,000 per 1,000 nuts.² This instability poses significant risks to forward contracting and margin predictability for small and medium-sized exporters. Furthermore, while the "Northern Coconut Triangle" initiative promises future supply security, the current reliance on aging plantations in the traditional

growing regions remains a critical bottleneck.

As the industry looks toward the 2030 export target of US\$ 2.5 billion, the lessons of 2025—specifically the triumph of branding and certification over bulk volume—will serve as the strategic blueprint. This report dissects the macro-economic drivers, statistical performance, pricing mechanisms, and future outlook for Sri Lankan Virgin Coconut Oil, offering a granular roadmap for stakeholders navigating this high-stakes market.

1. The Macro-Strategic Landscape: 2025 in Context

1.1 The "Billion Dollar" Imperative and National Recovery

To understand the performance of the Virgin Coconut Oil sector in 2025, one must first situate it within the broader macro-economic imperative of Sri Lanka. Following the economic contractions of the early 2020s, the national strategy pivoted aggressively toward export diversification and foreign exchange stabilization. The coconut sector, traditionally a reliable but steady performer, was tasked with aggressive growth targets.

In 2025, the sector delivered. By October, cumulative export earnings for coconut and coconut-based products reached US\$ 1.0339 billion, marking a robust 43.83% growth compared to the same period in 2024.³ This achievement was not merely a result of increased production; rather, it was a vindication of the "value-addition" strategy championed by the Ministry of Industries and the EDB. The data indicates that while traditional low-value exports like raw fiber struggled (declining by 9% in value), processed sectors like VCO, coconut cream, and activated carbon surged, effectively subsidizing the underperformance of the raw material sectors.¹

The significance of this milestone extends beyond the balance of payments. It represents a maturation of the Sri Lankan agro-industrial complex. The industry has successfully transitioned from being a supplier of raw copra to a provider of finished, retail-ready consumer goods. Virgin Coconut Oil, with its requirements for cold-pressing technology, organic certification, and high-quality packaging, epitomizes this shift. The ability of the sector to command premium prices in international markets—despite high logistics costs and domestic inflation—suggests that Sri Lanka has successfully carved out a niche for "Ceylon Coconut" as a high-quality geographical indication, distinct from the mass-market volumes produced by the Philippines or Indonesia.⁵

1.2 Global Edible Oil Dynamics and Consumer Trends

The demand for Sri Lankan VCO in 2025 was propelled by a confluence of global trends that favored functional and "clean label" ingredients.

- **The Wellness Super-Cycle:** The global wellness economy continued to expand in 2025, with Virgin Coconut Oil retaining its status as a "superfood" in North American and European markets. The ketogenic (keto) and paleo diet trends, which prioritize

high-quality fats and Medium Chain Triglycerides (MCTs), provided a sustained base of demand. Unlike refined coconut oil, which competes directly with palm and soybean oil, VCO operates in a semi-inelastic pricing tier, allowing exporters to pass on higher costs without crashing demand.³

- **The Vegan Substitution Effect:** A critical driver in 2025 was the rapid growth of the plant-based dairy sector. VCO is a foundational ingredient in vegan butters, cheeses, and ice creams due to its solid-at-room-temperature characteristic. The 93.32% growth in Coconut Cream exports and the 29.38% growth in Liquid Coconut Milk observed in August 2025 are corollary indicators of this trend; VCO is part of this same "vegan basket" of goods utilized by food formulators in the West.³
- **Cosmetic and Personal Care:** Beyond food, 2025 saw increased utilization of VCO in the personal care sector. The "clean beauty" movement has driven demand for cold-pressed, organic oils as carrier oils for skin and hair products. Sri Lankan VCO, known for its lighter texture and milder aroma compared to some Southeast Asian variants, has become a preferred ingredient for premium cosmetic formulations.

2. Statistical Deep Dive: Virgin Coconut Oil Performance (2025)

The statistical profile of the VCO sector in 2025 is characterized by a "Value-Volume Divergence." This phenomenon, where export earnings grow significantly faster than export quantities, is the hallmark of a maturing luxury product.

2.1 Cumulative Export Metrics (January – November 2025)

The Coconut Development Authority (CDA) Monitoring Bulletins provide the primary dataset for this analysis. By the end of November 2025, the sector had nearly completed its annual cycle, offering a reliable proxy for full-year performance.

Table 1: Virgin Coconut Oil Export Performance (Jan-Nov Comparative Analysis)

Performance Metric	Jan-Nov 2024	Jan-Nov 2025	Net Change	% Change
Export Volume (Metric Tons)	15,122	15,622	+500 MT	+3.3%
Export Value (Rs. Million)	17,794.66	29,695.38	+11,900.72	+66.9%
Implied Unit Value (Rs./kg)	1,176.73	1,900.86	+724.13	+61.5%

Source: Derived from CDA Monitoring Bulletin November 2025 ¹

Analysis of the Divergence:

The data reveals a stark contrast: a marginal 3.3% increase in volume generated a massive 66.9% increase in Rupee revenue.

- **Volume Constraints:** The low volume growth is not a demand signal but a supply constraint. The industry was hamstrung by the "Scarcity Phase" of nut production in the first half of 2025 (discussed in Section 3), which physically limited the amount of oil that could be pressed.
- **Value Creation:** The 61.5% increase in the implied unit value (Rs./kg) is extraordinary. While currency depreciation played a role, it does not account for the entirety of this jump. A significant portion is attributable to:
 1. **FOB Price Negotiation:** Exporters successfully renegotiated contracts to reflect higher global vegetable oil prices.
 2. **Product Mix Shift:** A larger percentage of exports in 2025 were likely retail-packed, organic-certified units rather than bulk flexi-tank shipments, which command lower unit prices.

2.2 Quarterly Phasing and The "August Spike"

Export performance was not linear. Breaking down the year reveals distinct phases of activity driven by the harvest cycle and international buying patterns.

- **Q1-Q2 (The Lean Season):** The first half of the year was plagued by raw material shortages. The aftereffects of the 2024 drought meant fewer nuts were available for milling. During this period, exporters likely drew down existing inventories or engaged in "spot" buying at high auction prices to fulfill contracts.
- **The Q3 Turnaround:** The data from the September bulletin shows that by the end of Q3 (Jan-Sep), cumulative VCO export volumes were actually *down* by 4% compared to 2024 (12,163 MT vs 12,625 MT).⁸ This confirms that for the first nine months of the year, the sector was contracting in volume terms.
- **The Q4 Acceleration:** The dramatic shift occurred between September and November. In just two months, the sector not only erased the 4% deficit but built a 3.3% surplus. This correlates perfectly with the "Supply Surge" in the coconut auctions in Q3, where nut availability skyrocketed, and prices crashed, allowing millers to aggressively ramp up production for year-end shipments.²
- **The August Anomaly:** Detailed monthly data for August 2025 indicates a massive localized spike. Earnings from kernel products surged 48.2% year-on-year in this month alone.³ This likely represents the pre-shipment peak for the holiday season in Western markets (Christmas/New Year retail stocking), where demand for baking ingredients (VCO, Desiccated Coconut) is highest.

2.3 Comparative Product Analysis: VCO vs. The Kernel Basket

To fully appreciate VCO's performance, it must be benchmarked against other kernel products.

Table 2: Kernel Product Sector Dynamics (Jan-Nov 2025)

Product Category	Volume Growth (YoY)	Value Growth (YoY)	Strategic Implication
Virgin Coconut Oil	+3%	+67%	High Value Retention. The flagship value-added product.
Coconut Oil (Bulk)	+29%	+132%	Commodity Inflation. Capturing global veg-oil price surges.
Desiccated Coconut	-36%	+16%	Cannibalization. Raw material diverted to Oil/Cream production.
Coconut Cream	+25%	+92%	Vegan Demand. Strongest correlation with VCO demand drivers.
Defatted Coconut	+351%	+566%	By-Product Utilization. Massive growth in residue valorization.

Source: CDA Monitoring Bulletin ¹

Strategic Insight: The 36% decline in Desiccated Coconut (DC) volume is a critical data point. In the coconut industry, DC and VCO often compete for the same raw material (fresh nuts). The fact that VCO volume grew (+3%) and Bulk Oil volume surged (+29%) while DC crashed suggests a strategic prioritization by millers. In 2025, it was simply more profitable to crush nuts for oil (and sell the by-product as poonac/defatted coconut) than to process them into desiccated coconut. The explosive growth of Defatted Coconut (+566% in value) confirms this; this is the residue of the oil extraction process, now finding a lucrative market as a

gluten-free flour or animal feed ingredient.¹

3. Supply Chain Anatomy: The Raw Material Rollercoaster

The production of Virgin Coconut Oil is inextricably linked to the primary market for fresh coconuts. In 2025, this upstream market experienced extreme volatility, testing the financial resilience of the entire value chain.

3.1 The "V-Shaped" Auction Price Curve

The Colombo Coconut Auction, the primary price discovery mechanism, witnessed a year of two halves.

- **Phase 1: The Scarcity Peak (January - April)** Driven by the delayed effects of the 2024 drought, nut supply was severely constricted in early 2025. Prices climbed steadily, reaching a historic peak of **Rs. 181,916 per 1,000 nuts** on April 24, 2025.²
 - *Impact on VCO:* This created a margin squeeze for exporters. With raw material costs at record highs, only those with high-value contracts (Organic/Fair Trade) could operate profitably. Bulk oil producers likely paused operations or operated at minimal capacity.
- **Phase 2: The Supply Flood (May - July)** The biological cycle of the coconut tree responded to late-2024 rains, resulting in a massive flush of nuts in mid-2025. Auction volumes exploded from ~370,000 nuts/auction to over 940,000 nuts/auction. Consequently, prices crashed by nearly 37%, hitting a low of **Rs. 114,779** in early July.²
 - *Impact on VCO:* This was the "profit window" for the year. Millers aggressively procured stock at these lower prices, processing it into oil that would be exported in Q3 and Q4. This aligns with the export volume recovery observed in the CDA data.
- **Phase 3: The Year-End Trough (November)** Despite a slight recovery in August/September, prices drifted lower again in Q4, hitting the year's absolute bottom of **Rs. 108,778** in November.² This was driven by demand contraction; international buyers, sensing the oversupply, pushed for lower prices, and domestic processors held back purchases anticipating further falls.

3.2 Regional Sourcing: The "Northern Triangle" Initiative

A pivotal development in 2025 was the government's acceleration of the "Northern Coconut Triangle" project. Traditionally, Sri Lanka's coconut production is concentrated in the "Coconut Triangle" (Kurunegala, Puttalam, Gampaha). However, rapid urbanization and climate change have threatened yields in this region.

- **The Strategic Shift:** In 2025, the government announced plans to cultivate 36,000 new acres, with a specific focus on 16,000 acres in the Northern Province (Jaffna, Mannar, Mulaitivu).⁶

- **Relevance to VCO:** The Northern region, with its untapped aquifers and different rainfall patterns, offers a hedge against the climate risks of the South. For the VCO industry, this promises a future of more stable raw material pricing, reducing the severity of the "V-shaped" volatility seen in 2025.

4. Pricing Mechanisms and Market Valuation

The valuation of Sri Lankan VCO is a complex interplay of domestic production costs (Auction Price) and international willingness-to-pay (FOB Price).

4.1 Global Pricing Benchmarks

Sri Lanka operates in a competitive global market dominated by the Philippines and Indonesia. However, 2025 data shows Sri Lanka holding its own in pricing power.

Table 3: Comparative Coconut Oil Export Prices (Q3 2025 Snapshot)

Origin	Price per Metric Ton (USD)	Market Positioning
India	\$4,130	Domestic-focused; uncompetitive for export.
Philippines	\$2,928	The global volume leader; sets the benchmark.
Sri Lanka	\$2,910	Competitive. Slightly undercutting the Philippines to gain share.
Indonesia	\$2,724	The low-cost option; often lower quality perception.

Source: IMARC Group Pricing Report ¹¹

Analysis:

Sri Lanka's pricing in Q3 2025 (\$2,910/MT) was effectively at parity with the Philippines (\$2,928/MT). This is significant. Historically, Sri Lanka has tried to command a premium for its "white oil." The fact that it priced competitively in 2025 suggests a strategic decision to prioritize market share recovery during the Q3 supply surge. It also highlights that the "Sri Lankan" brand can compete head-to-head on price when raw material costs (the July auction crash) allow.

4.2 The Logistics Factor: Rotterdam vs. Direct Trade

Market intelligence from 2025 highlights a shift in how pricing is determined. The "Rotterdam Market," once the global reference for coconut oil, is increasingly becoming a secondary indicator.

- **Direct Trade Dominance:** Major commodity traders (Archer Daniels Midland, Bunge, Cargill - the "ABCD" companies) are now bypassing open markets and buying directly from millers in origin countries.¹² This benefits Sri Lankan exporters who have established direct relationships, insulating them somewhat from the volatility of the Rotterdam spot market.
- **Freight Costs:** Shipping remains a major cost component. Spot rates from Asia to Rotterdam in late 2025 hovered around **US\$ 2,241 per FEU** (Forty-Foot Equivalent Unit).¹² These high logistics costs pressure the FOB margins of Sri Lankan exporters, making the "high value, low volume" strategy of VCO even more critical compared to bulky, low-value exports like fresh nuts.

4.3 Domestic Retail Valuation

The domestic market for VCO in Sri Lanka offers a microcosm of the premiumization strategy. Retail prices in 2025 demonstrate the massive value-add of branding and packaging.

Table 4: Domestic Retail Price Analysis (2025)

Product	Retail Price (LKR)	Volume	Effective Price/Liter (LKR)	Premium vs. Bulk Oil
Coconut Miracle VCO	1,799.00	500ml	3,598.00	+142%
Hayleys Virgin Coconut Oil	2,700.00	750ml	3,600.00	+142%
Gravity Extra Virgin	688.00	200ml	3,440.00	+131%
Keells Bulk Coconut Oil	1,485.00	1 Liter	1,485.00	Reference

Source: Retail Data Snippets ¹³

Insight:

In the local market, Virgin Coconut Oil commands a premium of roughly **130-140%** over standard refined coconut oil. This markup is driven by the "health halo" of the product and the higher production costs (cold press vs. expeller press). The presence of major corporate

brands like Hayleys and Renuka alongside niche players like "Coconut Miracle" indicates a vibrant, mature domestic market that serves as a testing ground for export brands.

5. Strategic Initiatives and Policy Framework

5.1 The "Value-Add" Policy Mandate

The overarching theme of 2025 was the government's rigorous promotion of value addition. The EDB and Ministry of Industries effectively discouraged the export of raw materials.

- **Fresh Nut Export Restrictions:** While fresh nut exports grew slightly in value (+0.4%), volumes fell by 15%.¹ This was likely due to implicit or explicit policy pressure to keep nuts within the country for local processing.
- **Import for Re-export:** A crucial policy intervention mentioned in the industry analysis was the permission for "limited import of coconut milk and raw nuts exclusively for re-export".¹⁶ This is a controversial but necessary policy. It allows Sri Lankan processors to keep their factories running and fulfill international contracts even during local droughts (like the one in early 2025), preventing them from losing market share to competitors.

5.2 Quality and Certification as a Non-Tariff Barrier

To maintain the high unit prices observed in Table 1, the Sri Lankan industry relied heavily on certifications.

- **Organic & Fair Trade:** The high value of exports is intrinsically linked to EU Organic, USDA Organic, and Halal certifications.³ These are no longer "nice-to-haves" but essential licenses to operate in the premium tier.
- **Waste Reduction:** Deputy Minister Chathuranga Abeysinghe's 2025 call to "optimize consumption and reduce waste" was not just rhetoric. It aligned with the boom in by-product exports (Shell Products +30%, Finished Fibre +24%).¹ Integrated VCO mills that also produce activated carbon (from shells) and coco peat (from husks) were the most profitable, as they monetized the entire nut.

6. Challenges, Risks, and Future Outlook

6.1 Critical Vulnerabilities

Despite the billion-dollar success, 2025 exposed structural cracks:

- **Climate Dependency:** The industry remains dangerously exposed to rainfall patterns. The "V-shaped" price curve of 2025 (driven by 2024 weather) makes financial planning difficult.
- **Aging Plantations:** A significant portion of the coconut palms in the Western Province are over 60 years old, well past their peak yield. Without rapid replanting, the long-term supply trend is negative.³

- **Market Concentration:** While diversifying, the industry is still heavily reliant on Western markets (USA/EU) for high-value VCO. Economic downturns or inflation in these regions could dampen demand for premium oils.

6.2 The 2030 Horizon

The immediate outlook for the end of 2025 and early 2026 is cautiously optimistic.

- **Q1 2026 Forecast:** With auction prices hitting a low of ~Rs. 108,000 in November 2025, millers enter 2026 with low-cost inventory. This should support competitive export pricing in Q1 2026.²
- **The 2.5 Billion Target:** The government has set a target of US\$ 2.5 billion in exports by 2030.¹⁰ Achieving this requires more than just marketing; it requires a fundamental agronomic shift—successfully bringing the Northern Coconut Triangle online to increase the national nut supply from ~3 billion to ~4 billion nuts annually.

7. Conclusion

The year 2025 will be recorded as the year the Sri Lankan Virgin Coconut Oil sector came of age. By generating nearly Rs. 30 billion in revenue from just 15,600 metric tons of product, the sector demonstrated the immense power of value addition. It successfully weathered a severe supply crunch in the first half of the year, capitalized on a supply surge in the second, and leveraged global inflation to maximize unit revenues.

However, the volatility of the raw material base remains the sword of Damocles hanging over the industry. The 40% swing in nut prices seen in 2025 is unsustainable for long-term growth. The path forward lies in stabilizing this base—through the Northern Triangle expansion and strategic imports—while continuing to aggressively market the unique "Ceylon" attributes of purity and taste that justify the sector's premium pricing. For investors and policymakers, the data from 2025 is clear: the future is not in more coconuts, but in *better* coconuts, processed into high-value oils, creams, and wellness products.

Appendix: Statistical Reference Data

Table A1: Monthly Export Trend Analysis (2025)

Comparing YTD performance at key intervals to identify seasonal shifts.

Reporting Period	VCO Volume (MT)	Volume Trend	VCO Value (Rs. Mn)	Value Trend
Jan - Sep 2025	12,163	-4% (Negative)	19,514	+9%

Jan - Nov 2025	15,622	+3% (Positive)	29,695	+67%
Implied Q4 Surge	The sector added ~3,500 MT in Oct/Nov alone, reversing the annual deficit.			

Source: Derived from CDA Sep⁸ and Nov¹ Bulletins.

Table A2: 2025 Auction Price Extremes (The "V-Shape")

Date	Price (Rs./1000 Nuts)	Market Phase	Implications for VCO
April 24	181,916	Peak	Production unviable; Focus on high-margin contracts only.
July 03	114,779	Trough	Aggressive buying; Inventory building for Q4 exports.
Nov 20	108,778	New Low	Pre-2026 stocking; deflationary pressure on raw materials.

Source: Nutioils White Paper²

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